

CITY OF MANISTEE MICHIGAN

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the Fiscal Year Ended June 30, 2012

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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Manistee
PO Box 358
Manistee, MI 49660

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Manistee, Michigan, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Manistee's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Manistee, Michigan, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 5, 2012, on our consideration of the City of Manistee, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis, schedule of funding progress, and budgetary comparison information, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Manistee's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Gabridge Wilson, CPA

Gabridge Wilson, CPA
Interlochen, MI
October 5, 2012

Management's Discussion and Analysis

The management of the *City of Manistee, Michigan* (the "City"), presents readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2012. This analysis is intended to assist the reader in focusing on significant financial issues and to provide a general overview of the City's financial activity.

Financial Highlights

- § The assets of the City (primary government) exceeded its liabilities at the close of the most recent fiscal year by \$35,645,326 (net assets). Of this amount, \$4,739,138 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- § The government's total net assets increased by \$584,672 or 1.67%.
- § As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$11,032,302, a decrease of \$966,918 or 8.06% from the prior year.
- § At the end of the current fiscal year, the total General Fund balance was \$1,175,303 and unassigned fund balance was \$1,062,237 or 18.50% of total General Fund expenditures and transfers out.
- § The City's total governmental activities long-term debt decreased by \$553,255.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the

underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (for example, earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include legislative, general government, public safety, public works, and recreation and culture. The business-type activities of the City include water and sewer, marina and boat ramp operations.

The government-wide financial statements include not only the City (known as the primary government), but also legally separate entities - the Downtown Development Authority, Manistee Housing Commission, Brownfield Development Authority and the Friends of the Ramsdell; which are *discretely presented component units* of the City. Financial information for these *component units* are reported separately from the financial information presented for the primary government.

The government-wide financial statements can be found on pages 14 - 15 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains 24 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Major Street, Local Street, and Oil & Gas Funds, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this

report.

The City adopts an annual appropriated budget for general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 16 - 19 of this report.

Proprietary Funds are also maintained by the City. There are two different types of proprietary funds. *Enterprise Funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer, marina and boat ramp operations. *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its motor pool. Because these services benefit general, major and local streets, and water and sewer fund functions, the services have been allocated between the governmental and business-type activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The City maintains four individual proprietary funds. Information is presented separately in the proprietary fund balance sheet and in the proprietary fund statement of revenues, expenses and changes in net assets for the Water and Sewer Fund, which is considered to be a major fund of the City. Data from the other proprietary funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major proprietary funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 20 - 23 of this report and in the business-type activities in the government-wide financial statements.

Fiduciary Funds: Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statement can be found on page 26 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. They should be read thoroughly as part of any review of the City's financial statements. The notes to the financial statements can be found on pages 27 - 51 of this report.

Other Information. The combining statements referred to earlier in connection with non-major governmental funds and component units are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 57 - 64 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$35,645,326 at the close of the most recent fiscal year.

City of Manistee Net Assets as of June 30, 2012 and June 30, 2011

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
ASSETS						
<i>Current Assets</i>						
Cash & Cash Equivalents	\$ 3,557,625	\$ 5,639,145	\$ 84,284	\$ 2,149,469	\$ 3,641,909	\$ 7,788,614
Investments	7,507,676	7,657,146	488,052	13,856	7,995,728	7,671,002
Receivables (Net)	460,469	513,478	552,588	527,035	1,013,057	1,040,513
Due From Agency Funds	209,672	3,943	6,857	-	216,529	3,943
Prepaid Expenditures	58,801	53,511	13,124	12,803	71,925	66,314
Inventory	-	-	16,324	11,961	16,324	11,961
Total Current Assets	11,794,243	13,867,223	1,161,229	2,715,124	12,955,472	16,582,347
<i>Noncurrent Assets</i>						
Restricted Cash	-	-	487,802	508,698	487,802	508,698
Deferred Charges	174,733	152,760	344,883	367,019	519,616	519,779
Capital Assets, net	21,680,896	19,704,550	24,655,578	22,577,880	46,336,474	42,282,430
Total Assets	33,649,872	33,724,533	26,649,492	26,168,721	60,299,364	59,893,254
LIABILITIES						
<i>Current Liabilities</i>						
Accounts Payable	125,927	825,466	65,906	179,734	191,833	1,005,200
Accrued Liabilities	6,973	882,942	3,586	47,350	10,559	930,292
Deferred Revenue	100,800	-	-	-	100,800	-
Security Deposits	109,794	127,000	35,580	37,205	145,374	164,205
Accrued Payroll & Related Liabilities	42,111	73,374	9,093	16,367	51,204	89,741
Accrued Interest Payable	94,111	93,725	79,768	57,471	173,879	151,196
Current Portion of Long-term Debt	602,036	587,452	1,124,952	961,855	1,726,988	1,549,307
Internal Balances	16,777	(353,661)	(16,777)	353,661	-	-
Total Current Liabilities	1,098,529	2,236,298	1,302,108	1,653,643	2,400,637	3,889,941
<i>Noncurrent Liabilities</i>						
Accrued Absences	258,013	257,691	58,923	47,867	316,936	305,558
Long-term Debt	8,810,851	9,379,011	13,075,736	11,230,523	21,886,587	20,609,534
Unfunded OPEB	49,878	27,567	-	-	49,878	27,567
Total Liabilities	10,217,271	11,900,567	14,436,767	12,932,033	24,654,038	24,832,600
NET ASSETS						
Invested in Capital Assets, Net of Related Debt	12,268,009	9,738,087	10,374,640	10,385,502	22,642,649	20,123,589
Restricted	7,746,289	8,676,019	517,250	508,698	8,263,539	9,184,717
Unrestricted	3,418,303	3,409,860	1,320,835	2,342,488	4,739,138	5,752,348
Total Net Assets	\$ 23,432,601	\$ 21,823,966	\$ 12,212,725	\$ 13,236,688	\$ 35,645,326	\$ 35,060,654

The largest portion of the City's net assets (64%) reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment and infrastructure); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the City's net assets \$8,263,539 (23%) represents resources that are subject to external restrictions on how they may be used both for the City as a whole, as well as for its separate governmental and business-type activities. The balance in *restricted net assets* reflects the charter-protected Oil & Gas Fund, the City's Bond Debt reserve, as well as other external restrictions. The remaining balance of *unrestricted net assets* \$4,739,138 (13%) may be used to meet the City's ongoing obligations to citizens and creditors.

Financial Analysis of the City's Funds

The following table illustrates and summarizes the changes in Net Assets for the City and was derived from the Government-wide Statement of Activities:

City of Manistee						
Change in Net Assets for Fiscal Year Ended June 30, 2012 and June 30, 2011						
	Governmental Activities		Business-type Activities		Total Government	
	2012	2011	2012	2011	2012	2011
Revenue						
Program Revenues						
Charges for Services	\$ 1,720,046	\$ 1,825,105	\$ 3,390,973	\$ 3,343,158	\$ 5,111,019	\$ 5,168,263
Operating Grants & Contributions	885,863	647,692	5,917	3,608	891,780	651,300
Capital Grants & Contributions	203,386	4,900	18,841	971,900	222,227	976,800
Total Program Revenues	2,809,295	2,477,697	3,415,731	4,318,666	6,225,026	6,796,363
General Revenues						
Tax Revenues	3,616,510	3,664,956	-	-	3,616,510	3,664,956
State Revenue Sharing	588,250	628,941	-	-	588,250	628,941
Interest on Investments	301,753	266,730	8,593	3,134	310,346	269,864
Other	214,387	1,316,067	147,127	99,499	361,514	1,415,566
Total General Revenues	4,720,900	5,876,694	155,720	102,633	4,876,620	5,979,327
Total Revenues	7,530,195	8,354,391	3,571,451	4,421,299	11,101,646	12,775,690
Expenses						
General Government	1,529,846	1,590,009	-	-	1,529,846	1,590,009
Public Works	2,266,873	2,188,424	-	-	2,266,873	2,188,424
Public Safety	1,765,209	1,904,867	-	-	1,765,209	1,904,867
Community & Economic Development	272,484	271,968	-	-	272,484	271,968
Recreation & Culture	510,779	551,330	-	-	510,779	551,330
Debt Service - Interest	370,869	398,589	-	-	370,869	398,589
Other	172,307	279,809	-	-	172,307	279,809
Water & Sewer	-	-	3,084,940	3,059,082	3,084,940	3,059,082
Marina, Boat Ramp, and Ramsdell	-	-	543,667	439,889	543,667	439,889
Total Expenses	6,888,367	7,184,996	3,628,607	3,498,971	10,516,974	10,683,967
Transfers In (Out)	966,807	(3,624,372)	(966,807)	3,624,372	-	-
Increase / Decrease in Net Assets	1,608,635	(2,454,977)	(1,023,963)	4,546,700	584,672	2,091,723
Beginning Net Assets	21,823,966	24,278,943	13,236,688	8,689,988	35,060,654	32,968,931
Ending Net Assets	\$ 23,432,601	\$ 21,823,966	\$ 12,212,725	\$ 13,236,688	\$ 35,645,326	\$ 35,060,654

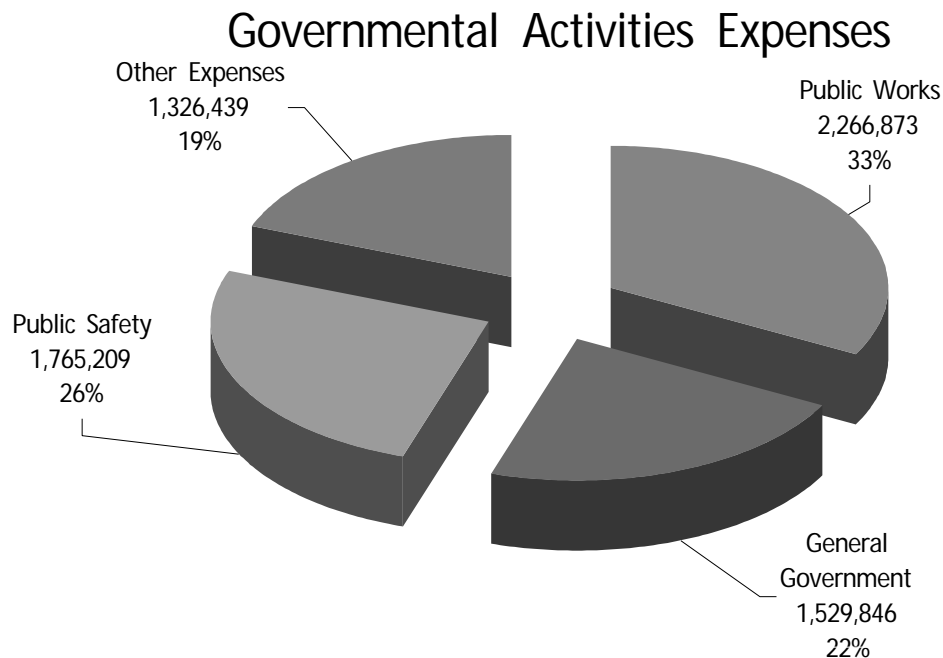
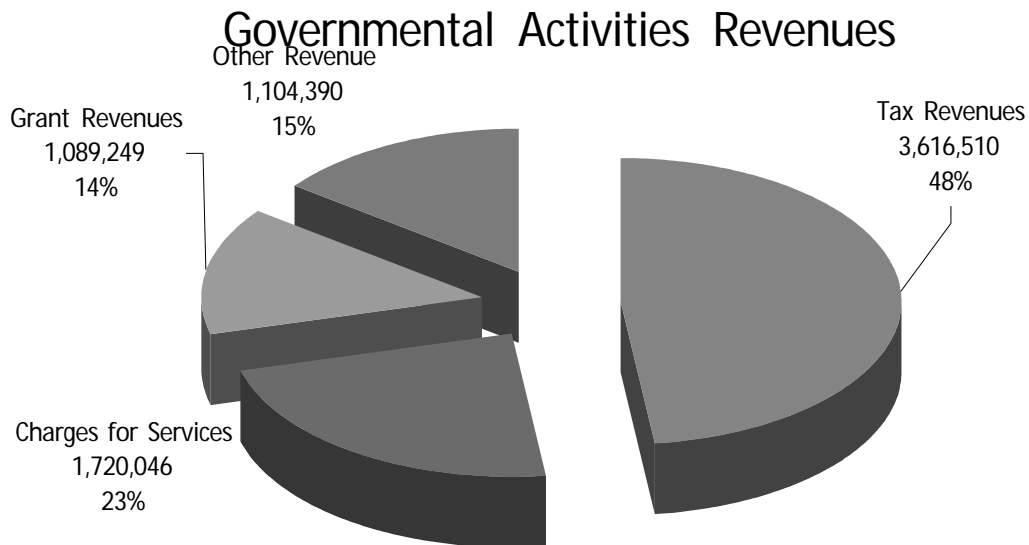
Governmental Activities Governmental activities increased the City's net assets by \$1,608,635, or 4.59%. Key elements of this performance are as follows:

- § Transfers from business-type activities of \$966,807
- § Capital grants of \$203,386

Business-type Activities Business-type activities decreased the City's net assets by \$1,023,963 or 2.92%. Key elements of this performance are as follows:

- § Transfers to governmental activities of \$966,807
- § Depreciation expense of \$1,181,117

The following charts depict the breakdown of government activity revenues and expenses.



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a City's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$11,032,302, a decrease of \$966,918 or 8.06% in comparison with the prior year.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the total fund balance of the General Fund was \$1,175,303, and it had a balance of \$1,062,237 that was unassigned. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures, including transfers out.

The Major Street fund balance increased by \$28,416. This is primarily attributed to transfers in from other funds of \$1,161,571.

The Local Street fund balance decreased by \$40,908. This is primarily attributed to capital outlay of \$1,100,000.

The Oil & Gas fund has a total fund balance of \$8,748,573, which increased by \$18,294 during the year. This increase is due to changes in the investment profile. The City Charter prevents the principal of this fund to be spent without a vote of the people.

Proprietary Funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net assets of Water and Sewer, Municipal Marina, Boat Ramp and Ramsdell Theatre Funds at the end of the year amounted to \$1,320,835, restricted assets amounted to \$517,250 and capital assets net of related debt amounted to \$10,374,640. The Water and Sewer Fund had a decrease in net assets for the year of \$1,180,349, while the Municipal Marina, Boat Ramp and Ramsdell Theatre had an increase of \$156,386.

General Fund Budgetary Highlights

During the year, General Fund revenues were over amended budgetary estimates by \$276,596. Revenues were boosted by the sale of sand during the Cedar Street CSO. Actual expenditures were under amended budgetary estimates by \$35,344. The mild winter allowed for savings on fuel and overtime. Further detail on budgetary highlights is found in the required supplemental information section of the audit report.

Capital Asset and Debt Administration

Capital Assets The City's investment in capital assets for its governmental and business-type activities as of June 30, 2012, amounted to \$46,336,474 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, park facilities, roads, highways, bridges and construction in progress. The total net increase in the City's investment in capital assets for the current fiscal year was \$4,054,044. Major capital asset events during the current fiscal year included the following:

- § Cedar street construction in the Water and Sewer Fund and Major Street Fund
- § Various system improvements in the Water and Sewer Fund
- § Ramsdell Theatre HVAC system upgrade
- § Various street construction projects in the Local Street Fund
- § First street reconstruction in the Major Street Fund

The following table summarizes the capital assets for the City as of year end:

City of Manistee Capital Assets as of June 30, 2012

	Governmental Activities	Business-type Activities	Total Primary Government
Land	\$ 4,715,697	\$ 60,207	\$ 4,775,904
Construction in Process	109,783	78,409	188,192
Land Improvements	5,211,231	417,502	5,628,733
Infrastructure	10,181,737	35,007,679	45,189,416
Buildings & Structure	6,035,999	3,827,480	9,863,479
Vehicles	2,461,151	-	2,461,151
Furniture & Equipment	1,948,889	954,001	2,902,890
Subtotal	<u>30,664,487</u>	<u>40,345,278</u>	<u>71,009,765</u>
Accumulated Depreciation	<u>8,983,591</u>	<u>15,689,700</u>	<u>24,673,291</u>
Net Capital Assets	<u>\$ 21,680,896</u>	<u>\$ 24,655,578</u>	<u>\$ 46,336,474</u>

Additional information on the City's capital assets can be found in Note 5 on pages 40 - 42 of this report.

Long-term Debt. At the end of the current fiscal year, the City had total bonded debt and lease payables of \$23,693,825. Of this amount, \$11,655,000 comprises debt backed by the full faith and credit of the government. The remainder of the City's debt represents capital leases, loans and bonds secured solely by specified revenue sources (i.e., revenue bonds).

The following table summarizes the City's outstanding debt as of the end of the year:

**City of Manistee
Outstanding Debt as of June 30, 2012**

	Governmental Activities	Business-type Activities	Total
General obligation bonds	\$ 9,265,000	\$ 2,390,000	\$ 11,655,000
Notes Payable	92,196	1,505,402	1,597,598
MEDC Loan	55,691	-	55,691
Installment Purchase	-	359,926	359,926
SRF & DWRP bonds	-	4,925,360	4,925,360
Revenue bonds	-	5,020,000	5,020,000
Total	<u>\$ 9,412,887</u>	<u>\$ 14,200,688</u>	<u>\$ 23,613,575</u>

The City's total debt (excluding compensated absences) increased by \$1,454,732.

The City has a "AA" rating from Standard & Poor's for its Michigan Transportation Fund Bonds, and a low investment grade rating indicator on its Water & Sewer debt.

State statutes limit the amount of general obligation debt a government entity may issue to 10% of its State Equalized Value. As of June 30, 2012, the City was well under its debt limitation.

Additional information on the City's long-term debt can be found in Note 7 on pages 44 - 46 of this report.

Economic Factors and Next Year's Budgets and Rates

The City of Manistee continues to weather the ongoing sluggish national and state economic recovery thru sound budgeting, strategic planning and increased operational efficiencies. Although state-shared revenue has decreased by nearly 50% from its peak, it appears to have now stabilized. However, property values continue to decline (albeit less sharply than in other areas of the state). In spite of these challenges, Manistee continues to be able to provide a wide range of services. Reduced revenues and rising costs have been addressed primarily by reducing headcount by 13% from its peak and aggressively pursuing healthcare reforms. Although this has adversely impacted employees, it has allowed the City to maintain adequate financial reserves. In addition, the pension and retiree healthcare issues that plague many communities across the nation do not exist in Manistee. City pension funds are fully funded and our OPEB is sharply limited because of a hard cap placed on this benefit many years ago.

Requests for Information

This discussion and analysis is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City Finance Director, PO Box 358, Manistee, Michigan 49660 or via email at ebradford@manisteemi.gov or by visiting our website.

City of Manistee
Statement of Net Assets
June 30, 2012

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
<i>Current Assets</i>				
Cash & Cash Equivalents	\$ 3,557,625	\$ 84,284	\$ 3,641,909	\$ 563,996
Investments	7,507,676	488,052	7,995,728	200,249
Receivables	460,469	552,588	1,013,057	70,510
Due from Agency Funds	209,672	6,857	216,529	--
Prepaid Expenditures	58,801	13,124	71,925	--
Inventory	--	16,324	16,324	--
Total Current Assets	11,794,243	1,161,229	12,955,472	834,755
<i>Noncurrent Assets</i>				
Cash & Cash Equivalents - Restricted	--	487,802	487,802	53,593
Deferred Charges	174,733	344,883	519,616	25,429
Capital Assets, net	21,680,896	24,655,578	46,336,474	4,159,682
Receivables - Noncurrent	--	--	--	79,997
Total Assets	33,649,872	26,649,492	60,299,364	5,153,456
LIABILITIES				
<i>Current Liabilities</i>				
Accounts Payable	125,927	65,906	191,833	66,930
Accrued Liabilities	6,973	3,488	10,461	6,005
Deferred Revenue	100,800	--	100,800	1,211
Due to Other Governments	--	98	98	38,413
Security Deposits	109,794	35,580	145,374	53,593
Accrued Payroll & Related Liabilities	42,111	9,093	51,204	29,254
Accrued Interest Payable	94,111	79,768	173,879	--
Current Portion of Long-term Debt	602,036	1,124,952	1,726,988	8,657
Internal Balances	16,777	(16,777)	--	--
Total Current Liabilities	1,098,529	1,302,108	2,400,637	204,063
<i>Noncurrent Liabilities</i>				
Accrued Absences	258,013	58,923	316,936	16,095
Long-term Debt less Current Portion	8,810,851	13,075,736	21,886,587	1,708,152
Unfunded OPEB	49,878	--	49,878	--
Total Liabilities	10,217,271	14,436,767	24,654,038	1,928,310
NET ASSETS				
Invested in Fixed Assets Net of Related Debt	12,268,009	10,374,640	22,642,649	2,442,873
<i>Restricted for:</i>				
Restricted	7,746,289	517,250	8,263,539	53,593
<i>Unrestricted</i>	3,418,303	1,320,835	4,739,138	728,680
Total Net Assets	\$ 23,432,601	\$ 12,212,725	\$ 35,645,326	\$ 3,225,146

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Manistee
Statement of Activities
For the Year Ended June 30, 2012**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Total	
Primary Government								
Governmental Activities:								
General Government	\$ 1,529,846	\$ 670,682	\$ 127,827	\$ --	\$ (731,337)	\$ --	\$ (731,337)	\$ --
Public Safety	1,765,209	61,783	22,910	103,386	(1,577,130)	--	(1,577,130)	--
Public Works	2,266,873	987,581	594,626	--	(684,666)	--	(684,666)	--
Community & Economic Development	272,484	--	--	--	(272,484)	--	(272,484)	--
Recreation & Culture	510,779	--	--	100,000	(410,779)	--	(410,779)	--
Debt Service - Interest	370,869	--	140,500	--	(230,369)	--	(230,369)	--
Other	172,307	--	--	--	(172,307)	--	(172,307)	--
Total Governmental Activities	6,888,367	1,720,046	885,863	203,386	(4,079,072)	--	(4,079,072)	--
Business-type Activities:								
Boat Ramp	41,785	24,235	--	--	--	(17,550)	(17,550)	--
Marina	283,061	201,750	--	18,841	--	(62,470)	(62,470)	--
Ramsdell Theatre	218,821	57,294	5,917	--	--	(155,610)	(155,610)	--
Water & Sewer	3,084,940	3,107,694	--	--	--	22,754	22,754	--
Total Business-type Activities	3,628,607	3,390,973	5,917	18,841	--	(212,876)	(212,876)	--
Total Primary Government	\$ 10,516,974	\$ 5,111,019	\$ 891,780	\$ 222,227	\$ (4,079,072)	\$ (212,876)	\$ (4,291,948)	--
Component Units								
Total Component Units	\$ 1,853,928	\$ 645,194	\$ 489,719	\$ 18,456	--	--	--	(700,559)
Total Component Units	\$ 1,853,928	\$ 645,194	\$ 489,719	\$ 18,456	--	--	--	(700,559)
General Purpose Revenues and Transfers:								
Revenues								
Tax Revenues					3,616,510	--	3,616,510	333,290
State Revenue Sharing					588,250	--	588,250	--
Other Revenue					214,387	147,127	361,514	108,190
Interest on Investments					301,753	8,593	310,346	2,986
Transfers					<u>966,807</u>	<u>(966,807)</u>	<u>--</u>	<u>--</u>
Total General Revenues and Transfers					<u>5,687,707</u>	<u>(811,087)</u>	<u>4,876,620</u>	<u>444,466</u>
Change in Net Assets					1,608,635	(1,023,963)	584,672	(256,093)
Net Assets at Beginning of Period					21,823,966	13,236,688	35,060,654	3,481,239
Net Assets at End of Period					<u>\$ 23,432,601</u>	<u>\$ 12,212,725</u>	<u>\$ 35,645,326</u>	<u>\$ 3,225,146</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

**City of Manistee
Balance Sheet
Governmental Funds
June 30, 2012**

		<u>Special Revenue</u>		<u>Permanent</u>		
	<u>General</u>	<u>Local Street</u>	<u>Major Street</u>	<u>Oil & Gas</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash & Cash Equivalents	\$ 795,866	\$ 18,559	\$ 15,463	\$ 1,258,223	\$ 1,104,091	\$ 3,192,202
Investments	57,052	--	--	7,450,624	--	7,507,676
Receivables	246,853	21,550	96,529	39,726	55,811	460,469
Due from Agency Funds	195,610	--	--	--	14,062	209,672
Prepaid Expenditures	55,964	--	--	--	--	55,964
Due from Other Funds	100,000	--	--	--	99,604	199,604
Total Assets	\$ 1,451,345	\$ 40,109	\$ 111,992	\$ 8,748,573	\$ 1,273,568	\$ 11,625,587
LIABILITIES						
Accounts Payable	\$ 61,034	\$ --	\$ 9,716	\$ --	\$ 46,476	\$ 117,226
Accrued Liabilities	1,117	--	--	--	5,856	6,973
Deferred Revenue	--	--	--	--	100,800	100,800
Security Deposits	109,794	--	--	--	--	109,794
Accrued Payroll & Related Liabilities	42,111	--	--	--	--	42,111
Due to Other Funds	61,986	--	--	--	154,395	216,381
Total Liabilities	276,042	--	9,716	--	307,527	593,285
FUND BALANCE						
Nonspendable	55,964	--	--	7,184,269	--	7,240,233
Restricted	--	40,109	102,276	--	363,671	506,056
Committed	57,102	--	--	--	453,485	510,587
Assigned	--	--	--	1,564,304	148,885	1,713,189
Unassigned	1,062,237	--	--	--	--	1,062,237
Total Fund Balance	1,175,303	40,109	102,276	8,748,573	966,041	11,032,302
Total Liabilities and Fund Balance	\$ 1,451,345	\$ 40,109	\$ 111,992	\$ 8,748,573	\$ 1,273,568	\$ 11,625,587

The Notes to the Financial Statements are an integral part of these Financial Statements

City of Manistee
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2012

Total Fund Balance - Governmental Funds	\$ 11,032,302
Net Assets of internal service funds that are treated as proprietary in the fund level statements are treated as governmental in the entity-wide statements	1,347,138
General government capital assets of \$27,081,236, net of accumulated depreciation of \$6,468,248, are not financial resources, and accordingly are not reported in the funds	20,612,986
In the Statement of Activities, interest is accrued on outstanding bonds, whereas in governmental funds, the interest expenditure is reported when due	(92,101)
Long-term liabilities, excluding long-term obligations of \$78,321 from the Internal Service Fund listed above, are not due and payable in the current period and therefore are not reported in the funds	(9,334,566)
Bond issuance costs are reported as deferred charges and amortized over the term of the related debt	174,733
Compensated absences are not due in and payable in the current period, and therefore, are not reported in the funds	(258,013)
Other Post Employment Benefits are not due in and payable in the current period, and therefore, are not reported in the funds	(49,878)
Total Net Assets - Governmental Funds	\$ <u>23,432,601</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

City of Manistee
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2012

	<u>Special Revenue</u>			<u>Permanent</u>	<u>Other</u>	<u>Total</u>
	<u>General</u>	<u>Local Street</u>	<u>Major Street</u>	<u>Oil & Gas</u>	<u>Governmental Funds</u>	<u>Governmental Funds</u>
Revenues						
Tax Revenues	\$ 3,399,259	\$ --	\$ --	\$ --	\$ 217,251	\$ 3,616,510
Licenses & Permits	101,272	--	--	--	--	101,272
State Revenue Sharing	596,803	130,854	379,755	--	--	1,107,412
Grants & Contributions	70,685	--	45,113	--	329,241	445,039
Charges for Services	840,136	--	174,883	--	236,218	1,251,237
Fines & Forfeits	24,513	--	--	--	--	24,513
Refunds & Reimbursements	180,148	--	--	--	21,429	201,577
Rental Income	25,562	--	--	--	--	25,562
Other Revenue	214,385	--	--	116,159	--	330,544
Interest on Investments	2,544	66	177	290,340	5,733	298,860
Total Revenues	<u>5,455,307</u>	<u>130,920</u>	<u>599,928</u>	<u>406,499</u>	<u>809,872</u>	<u>7,402,526</u>
Expenditures						
General Government	1,268,273	--	--	--	67,285	1,335,558
Public Safety	1,686,598	--	--	--	40,806	1,727,404
Public Works	986,842	130,766	276,848	--	533,889	1,928,345
Community & Economic Development	272,484	--	--	--	--	272,484
Recreation & Culture	362,784	--	--	--	183	362,967
Capital Outlay	78,969	1,100,000	1,242,885	--	210,399	2,632,253
Debt Service - Principal	462,168	--	120,000	--	5,616	587,784
Debt Service - Interest	344,842	--	23,350	--	--	368,192
Other	126,884	--	--	45,423	--	172,307
Total Expenditures	<u>5,589,844</u>	<u>1,230,766</u>	<u>1,663,083</u>	<u>45,423</u>	<u>858,178</u>	<u>9,387,294</u>
Excess of Revenues Over						
(Under) Expenditures	<u>(134,537)</u>	<u>(1,099,846)</u>	<u>(1,063,155)</u>	<u>361,076</u>	<u>(48,306)</u>	<u>(1,984,768)</u>
Other Financing Sources (Uses)						
Proceeds from Refunded Bonds	1,075,000	--	--	--	--	1,075,000
Proceeds from Debt Issuance	16,043	--	--	--	--	16,043
Transfers from Other Funds	428,585	1,170,000	1,161,571	--	1,589,313	4,349,469
Payment to Advance Refund Bonds	(1,040,000)	--	--	--	--	(1,040,000)
Transfers to Other Funds	(151,030)	(111,062)	(70,000)	(342,782)	(2,707,788)	(3,382,662)
Net Other Financing Sources (Uses)	<u>328,598</u>	<u>1,058,938</u>	<u>1,091,571</u>	<u>(342,782)</u>	<u>(1,118,475)</u>	<u>1,017,850</u>
Net Change in Fund Balance	<u>194,061</u>	<u>(40,908)</u>	<u>28,416</u>	<u>18,294</u>	<u>(1,166,781)</u>	<u>(966,918)</u>
Fund Balance at Beginning of Period	<u>981,242</u>	<u>81,017</u>	<u>73,860</u>	<u>8,730,279</u>	<u>2,132,822</u>	<u>11,999,220</u>
Fund Balance at End of Period	<u>\$ 1,175,303</u>	<u>\$ 40,109</u>	<u>\$ 102,276</u>	<u>\$ 8,748,573</u>	<u>\$ 966,041</u>	<u>\$ 11,032,302</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

City of Manistee
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balance with Statement of Activities
For the Year Ended June 30, 2012

Total Net Change in Fund Balances - Governmental Funds	\$ (966,918)
Changes in net assets of internal service funds that are treated as enterprise fund changes in net assets in the fund level statements are treated as governmental fund changes in net assets in the entity-wide statements	127,669
Governmental funds report capital outlay as expenditures; however, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense. This is the amount by which the capital outlay expenditures of \$2,632,253 are in excess of depreciation expense of \$682,773	1,949,480
Repayment of bond principal is an expenditure in the governmental funds but the repayment reduces long-term liabilities in the Statement of Net Assets	587,784
Bond issuance costs are reported as deferred charges and amortized over the term of the related debt	(13,027)
Increase in accrued interest expense	(2,677)
Increase in compensated absences	(322)
Proceeds from debt issuance are reported as revenue in the fund statements, but reported as liabilities in the statement of net assets	(51,043)
Increase in Other Post Employment Benefits	(22,311)
Changes in Net Assets - Governmental Funds	\$ <u>1,608,636</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

City of Manistee
Statement of Net Assets
Proprietary Funds
June 30, 2012

	Business-type Activities - Enterprise Funds			Governmental Activities
	Water & Sewer	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
ASSETS				
<i>Current Assets</i>				
Cash & Cash Equivalents	\$ 14,579	\$ 69,705	\$ 84,284	\$ 365,423
Investments	488,052	--	488,052	--
Receivables	528,714	23,874	552,588	--
Due from Agency Funds	6,857	--	6,857	--
Prepaid Expenditures	12,594	530	13,124	2,837
Inventory	--	16,324	16,324	--
Due from Other Funds	461,613	55,362	516,975	--
Total Current Assets	1,512,409	165,795	1,678,204	368,260
<i>Noncurrent Assets</i>				
Cash & Cash Equivalents - Restricted	487,802	--	487,802	--
Deferred Charges	344,883	--	344,883	--
Capital Assets, net	20,865,664	3,789,914	24,655,578	1,067,910
Total Assets	23,210,758	3,955,709	27,166,467	1,436,170
LIABILITIES				
<i>Current Liabilities</i>				
Accounts Payable	33,769	32,137	65,906	8,701
Accrued Liabilities	--	3,488	3,488	--
Due to Other Governments	--	98	98	--
Security Deposits	32,600	2,980	35,580	--
Accrued Payroll & Related Liabilities	7,320	1,773	9,093	--
Accrued Interest Payable	54,024	25,744	79,768	2,010
Current Portion of Long-term Debt	980,000	144,952	1,124,952	38,484
Due to Other Funds	72,815	427,383	500,198	--
Total Current Liabilities	1,180,528	638,555	1,819,083	49,195
<i>Noncurrent Liabilities</i>				
Accrued Absences	57,803	1,120	58,923	--
Long-term Debt less Current Portion	11,355,360	1,720,376	13,075,736	39,837
Total Liabilities	12,593,691	2,360,051	14,953,742	89,032
NET ASSETS				
Invested in Fixed Assets Net of Related Debt	8,450,054	1,924,586	10,374,640	988,589
<i>Restricted for:</i>				
Restricted	500,396	16,854	517,250	--
<i>Unrestricted</i>	1,666,617	(345,782)	1,320,835	358,549
Total Net Assets	\$ 10,617,067	\$ 1,595,658	\$ 12,212,725	\$ 1,347,138

The Notes to the Financial Statements are an integral part of these Financial Statements

City of Manistee
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Funds
For the Year Ended June 30, 2012

	Business-type Activities - Enterprise Funds			Governmental Activities Internal Service Funds
	Water & Sewer	Other Enterprise Funds	Total Enterprise Funds	
Operating Revenues				
Charges for Services	\$ 2,751,466	\$ 283,279	\$ 3,034,745	\$ 379,506
Other Revenue	118,775	28,352	147,127	--
Total Operating Revenues	2,870,241	311,631	3,181,872	379,506
Operating Expenses				
Recreation & Culture	--	133,411	133,411	--
Water Operations	832,579	--	832,579	--
Sewer WWTP	646,488	--	646,488	--
Sewer Collections	170,925	--	170,925	--
Boat Ramp	--	13,134	13,134	--
Marina	--	220,339	220,339	--
Motor Pool Operations	--	--	--	90,245
Depreciation & Amortization	1,073,981	107,136	1,181,117	166,485
Total Operating Expenses	2,723,973	474,020	3,197,993	256,730
Operating Income (Loss)	146,268	(162,389)	(16,121)	122,776
Non-Operating Revenues (Expenses)				
Grants & Contributions	--	24,758	24,758	--
Interest on Investments	6,807	1,786	8,593	2,893
Gain on Disposal	--	--	--	2,000
Bond Interest & Fees	356,228	--	356,228	--
Interest Expense	(360,967)	(69,647)	(430,614)	--
Net Non-Operating Revenues (Expenses)	2,068	(43,103)	(41,035)	4,893
Income Before Contributions and Transfers	148,336	(205,492)	(57,156)	127,669
Transfers from Other Funds	2,468,541	361,878	2,830,419	--
Transfers to Other Funds	(3,797,226)	--	(3,797,226)	--
Change In Net Assets	(1,180,349)	156,386	(1,023,963)	127,669
<i>Net Assets at Beginning of Period</i>	<i>11,797,416</i>	<i>1,439,272</i>	<i>13,236,688</i>	<i>1,219,469</i>
Net Assets at End of Period	\$ 10,617,067	\$ 1,595,658	\$ 12,212,725	\$ 1,347,138

The Notes to the Financial Statements are an integral part of these Financial Statements

City of Manistee
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2012

	Business-type Activities Enterprise Funds			Governmental Activities Internal Service Funds
	Water & Sewer	Other Enterprise Funds	Total	
Cash Flows from Operating Activities				
Receipts from Customers	\$ 2,852,526	\$ 302,168	\$ 3,154,694	\$ 379,506
Payments to Suppliers	(1,019,515)	(409,003)	(1,428,518)	(81,887)
Payments to Employees	(680,812)	(66,039)	(746,851)	-
Total Cash Flows from Operating Activities	1,152,199	(172,874)	979,325	297,619
Cash Flows from Non-capital Financing Activities				
Transfers from (to) Other Funds	(1,180,349)	361,878	(818,471)	-
(Increase) Decrease in Due from Other Funds	(196,881)	(55,362)	(252,243)	-
(Decrease) Increase in Due to Other Funds	(225,384)	(25,869)	(251,253)	-
Total Cash Flows from Non-capital Financing Activities	(1,602,614)	280,647	(1,321,967)	-
Cash Flows from Capital and Related Financing Activities				
Proceeds from Debt Issuance	1,869,589	1,250,000	3,119,589	-
Receipts from Other Agencies	-	24,758	24,758	-
Collection of Customer Assessments	356,228	-	356,228	-
Purchase of Capital Assets	(1,806,091)	(1,452,427)	(3,258,518)	(191,350)
Principal Paid on Capital Debt	(1,002,735)	(108,544)	(1,111,279)	(51,836)
Interest Paid on Capital Debt	(355,944)	(52,373)	(408,317)	(2,291)
Total Cash Flows from Capital and Related Financing Activities	(938,953)	(338,586)	(1,277,539)	(245,477)
Cash Flows from Investing Activities				
Interest on Investments	6,807	1,786	8,593	2,893
Total Cash Flows from Investing Activities	6,807	1,786	8,593	2,893
Net Increase (Decrease) in Cash & Cash Equivalents	(1,382,561)	(229,027)	(1,611,588)	55,035
Cash & Cash Equivalents - Beginning of Year	2,372,994	298,732	2,671,726	310,388
Cash & Cash Equivalents - End of Year	\$ 990,433	\$ 69,705	\$ 1,060,138	\$ 365,423

The Notes to the Financial Statements are an integral part of these Financial Statements

City of Manistee
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2012

	Business-type Activities Enterprise Funds			Governmental Activities Internal Service Funds
	Water & Sewer	Other Enterprise Funds	Total	
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Operating Income (Loss)	\$ 146,268	\$ (162,389)	\$ (16,121)	\$ 122,776
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities				.
Depreciation & Amortization Expense	1,073,981	107,136	1,181,117	166,485
Changes in Assets & Liabilities				
Receivables	(17,715)	(9,463)	(27,178)	-
Inventory	-	(4,363)	(4,363)	-
Prepaid Expenses	81	(402)	(321)	(343)
Accounts Payable	(69,604)	(104,354)	(173,958)	8,701
Compensated Absences	11,868	(812)	11,056	-
Accrued Payroll	7,320	1,773	9,093	-
Net Cash Provided by Operating Activities	\$ 1,152,199	\$ (172,874)	\$ 979,325	\$ 297,619

The Notes to the Financial Statements are an integral part of these Financial Statements

City of Manistee
Combining Statement of Net Assets
Component Units
June 30, 2012

	Downtown Development Authority	Housing Commission	Friends of the Ramsdell	Total Component Units
ASSETS				
<i>Current Assets</i>				
Cash & Cash Equivalents	\$ 221,949	\$ 339,682	\$ 2,365	\$ 563,996
Investments	200,249	--	--	200,249
Receivables	54,883	15,627	--	70,510
Total Current Assets	477,081	355,309	2,365	834,755
<i>Noncurrent Assets</i>				
Cash & Cash Equivalents - Restricted	--	53,593	--	53,593
Deferred Charges	--	25,429	--	25,429
Capital Assets, net	--	4,159,682	--	4,159,682
Receivables - Noncurrent	79,997	--	--	79,997
Total Assets	557,078	4,594,013	2,365	5,153,456
LIABILITIES				
<i>Current Liabilities</i>				
Accounts Payable	25,563	41,367	--	66,930
Accrued Liabilities	6,005	--	--	6,005
Deferred Revenue	--	1,211	--	1,211
Due to Other Governments	--	38,413	--	38,413
Security Deposits	--	53,593	--	53,593
Accrued Payroll & Related Liabilities	1,256	27,998	--	29,254
Current Portion of Long-term Debt	--	8,657	--	8,657
Total Current Liabilities	32,824	171,239	--	204,063
<i>Noncurrent Liabilities</i>				
Accrued Absences	--	16,095	--	16,095
Long-term Debt less Current Portion	--	1,708,152	--	1,708,152
Total Liabilities	32,824	1,895,486	--	1,928,310
NET ASSETS				
Invested in Fixed Assets Net of Related Debt	--	2,442,873	--	2,442,873
<i>Restricted for:</i>				
Restricted	--	53,593	--	53,593
<i>Unrestricted</i>	524,254	202,061	2,365	728,680
Total Net Assets	\$ 524,254	\$ 2,698,527	\$ 2,365	\$ 3,225,146

The Notes to the Financial Statements are an integral part of these Financial Statements

City of Manistee
Combining Statement of Activities
Component Units
For the Year Ended June 30, 2012

	Downtown Development Authority	Housing Commission	Friends of the Ramsdell	Total Component Units
Expenses				
Health & Welfare	\$ --	\$ 1,483,263	\$ --	\$ 1,483,263
Community & Economic Development	370,665	--	--	370,665
Total Expenses	370,665	1,483,263	--	1,853,928
Program Revenues				
Charges for Services	45,932	599,262	--	645,194
Operating Grants & Contributions	506	489,213	--	489,719
Capital Grants & Contributions	--	18,456	--	18,456
Total Program Revenues	46,438	1,106,931	--	1,153,369
Net Program Revenues (Expenses)	(324,227)	(376,332)	--	(700,559)
General Revenue				
Tax Revenues	333,290	--	--	333,290
Other Revenue	17,211	90,979	--	108,190
Interest on Investments	1,808	1,174	4	2,986
Total General Revenues	352,309	92,153	4	444,466
Change in Net Assets	28,082	(284,179)	4	(256,093)
Net Assets at Beginning of Period	496,172	2,906,249	2,361	3,404,782
Prior Period Adjustment (Note 11)	-	(76,457)	-	(76,457)
Beginning Net Assets - Restated	496,172	2,829,792	2,361	3,328,325
Net Assets at End of Period	\$ 524,254	\$ 2,698,527	\$ 2,365	\$ 3,225,146

The Notes to the Financial Statements are an integral part of these Financial Statements

City of Manistee
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012

	<u>Agency</u>		
	<u>Delinquent Tax</u>	<u>Payroll Clearing</u>	<u>Current Tax Collection</u>
ASSETS			
Cash & Cash Equivalents	\$ 4,716	\$ 33,162	\$ 237,394
<i>Total Assets</i>	<u>4,716</u>	<u>33,162</u>	<u>237,394</u>
LIABILITIES			
Due to Other Agencies	4,716	4,000	237,394
Accrued Payroll & Related Liabilities	--	29,162	--
<i>Total Liabilities</i>	<u>4,716</u>	<u>33,162</u>	<u>237,394</u>
NET ASSETS			
Held in Trust	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>

The Notes to the Financial Statements are an integral part of these Financial Statements

City of Manistee

Notes to the Financial Statements

Note 1 – Summary of Significant Accounting Policies

The financial statements of the City of Manistee, Michigan (government) have been prepared in conformity with the U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting principles are described below.

Reporting entity

The City of Manistee (the "City") is directed by a City Council elected by the community at large. This legislative body appoints a City Manager to administer the affairs of the City. The City provides the following services as authorized by its charter: public safety (police and fire), highways and streets, parks and recreation, public improvements, planning and zoning and general administrative services. The City has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 14 and Statement No. 39, regarding the definition of the reporting entity.

Discretely Presented Component Units

Friends of the Ramsdell

In accordance with GASB Statement No. 39, the financial statements of the Friends of the Ramsdell are included as a discretely presented component unit in the financial statements of the City. A complete financial statement of the Friends of the Ramsdell is included within these financial statements.

The Friends of the Ramsdell financial statements are prepared in accordance with the accounting standards established by the Financial Accounting Standards Board and accordingly, a reporting model different from that of the City is used. The Friends of the Ramsdell financial statements included within reflect both models.

Manistee City Housing Commission

The Mayor, with approval of the City Council, appoints the members of the governing board of the Commission. The Commission's fiscal year end is December 31, 2011. A complete financial statement of the Housing Commission can be obtained from the Executive Director, City of Manistee Housing Commission, Century Terrace, Manistee, Michigan 49660.

City of Manistee

Notes to the Financial Statements

Downtown Development Authority (“DDA”)

The Mayor, with approval of the City Council, appoints the members of the governing board of the DDA. The City also has the ability to significantly influence the operations of the DDA. A complete financial statement of the DDA can be obtained from the City Finance Director, City of Manistee, 70 Maple Street, P0 Box 358, Manistee, Michigan 49660-0358.

Blended Component Units

Brownfield Redevelopment Authority

The Mayor with approval of the City Council appoints the members of the governing board of the Brownfield Redevelopment Authority. The Brownfield Redevelopment Authority is reported as a blended component unit as a part of the City of Manistee statements.

Government-wide Fund Financial Statements

The government-wide financial statements (e.g., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include; 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

City of Manistee

Notes to the Financial Statements

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting; however, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function, cost of building rent and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer Enterprise Fund and of the government's Motor Pool Internal Service Fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenues the portion of tap fees intended to recover the cost of

City of Manistee

Notes to the Financial Statements

connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the city's policy to use restricted resources first, and then use unrestricted resources as they are needed.

The City reports the following major governmental funds:

General Fund

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Oil & Gas Fund

The *Oil & Gas Fund* accounts for the use of money derived from oil and gas royalties, which was endowed in a permanent fund. The income from the endowment was pledged to subsidize the water and sewer operations. The City is starting to phase out the subsidy so the water and sewer operations will become self-sufficient, and interest from this fund can be used for capital improvements.

Major Street Fund

The *Major Street Fund* accounts for the maintenance and improvement activities for streets designated as "major" within the City. Funding is primarily through state shared gas and weight taxes.

Local Street Fund

The *Local Street Fund* accounts for the maintenance and improvement activities for streets designated as "local" within the City. Funding is primarily through state shared gas and weight taxes.

The government reports the following major proprietary funds:

Water and Sewer Fund

The *Water and Sewer Fund* is the City's major proprietary fund. It accounts for the activities of the City's water distribution, sewage disposal and treatment system.

City of Manistee

Notes to the Financial Statements

Additionally, the City reports the following fund types:

Internal Service Fund

The *Internal Service Fund* accounts for fleet and equipment management to other departments or agencies of the City, or to other governments, on a cost reimbursement basis.

Agency Funds

The *Agency Funds* account for assets held for other governments in an agency capacity, including tax collections.

Non-major Special Revenue Fund

The *Non-major Special Revenue Fund* account for those areas where separate reporting is required or desired.

Non-major Enterprise Fund

The *Non-major Enterprise Fund* accounts for the operations of the Boat Ramp, Marina, and Ramsdell Theater funds.

Non-major Capital Projects Fund

The *Non-major Capital Projects Fund* accounts for resources for the Capital Improvement and Renaissance Park Funds.

Assets, Liabilities and Net Assets of Equity

Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are stated at fair market value.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year and all other outstanding balances between funds are referred to as "due to/from other funds" (i.e., the current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

City of Manistee

Notes to the Financial Statements

Property Taxes

The City's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through August 20; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Manistee County.

Assessed values as established annually by the City, and subject to acceptance by the County, are equalized by the state at an estimated 50% of current market value. Real and personal property in the City for the 2011 levy were assessed and equalized at \$204,113,394 (not including properties subject to Industrial Facilities Tax Exemption), representing 50% of estimated current market value.

The government's general operating tax rate for fiscal year 2012 was 17.30 mills, with an additional 1.15 mills levied for the City Refuse Fund.

Property taxes for the DDA are derived from a tax increment financing agreement between the DDA and other related taxing districts. Under this arrangement, the DDA receives those property taxes levied on the increment of current taxable valuations (determined as of the preceding December 31, the lien date) over base year assessed valuations on certain property located in the City, which are within the DDA district. Property taxes are recognized in the fiscal year in which they are levied.

Restricted Assets

Cash and investments of the Water and Sewer Fund are restricted by bond debt requirements in the amount of \$487,802.

Inventories and Prepaid Items

Inventory (if held) by the enterprise funds is valued at cost on the first-in, first-out basis. Inventory of expendable supplies in other funds have not been recorded and the amount of any such inventories is not considered material. The cost value of such inventories has been treated as an expenditure at the time of purchase.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

City of Manistee

Notes to the Financial Statements

Capital assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government and component units are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Useful Life</u>
Buildings	40 - 50 Years
Public domain infrastructure	50 Years
System infrastructure	50 Years
Vehicles	3 - 20 Years
Equipment	5 - 10 Years

Capital assets of the Housing Commission with a cost to acquire or construct of \$600 or more are capitalized and depreciated over their useful lives. Depreciation is provided on a straight-line basis using the following estimated useful lives:

<u>Description</u>	<u>Useful Life</u>
Buildings - dwellings	40 Years
Buildings - nondwellings	20 Years
Equipment - dwellings	7 Years
Equipment - nondwellings	5 - 7 Years
Building improvements	5 - 40 Years

City of Manistee

Notes to the Financial Statements

Compensated Absences (Vacation, Personal, and Sick Leave)

Vacation and sick days for the City's salaried and some hourly employees are determined by the City's personnel policies, and the remaining City's hourly employees are determined by the union agreement between the City and the employees' union. The liability for these amounts will be included in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- Vacation leave with pay granted annually shall be used within eighteen months after qualifying for the same. Vacation leave not used shall be forfeited.
- Each employee shall be granted one day for each month of employment for sick leave, not to exceed twelve days per year. Employees may accumulate up to 180 sick leave days.
- Each employee who has two or more years of service shall be granted three days per year for personal business not to be deducted from sick leave. Employees with less than two years of service shall be granted one day off per year for personal business not to be deducted from sick leave.

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

City of Manistee

Notes to the Financial Statements

Fund equity

In the fund financial statements fund balance is presented in five possible categories, each of which identifies the extent to which the City is bound to honor constraints on the specific purpose for which the amounts can be spent:

Nonspendable – amounts which cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained directly.

Restricted – amounts that have constraints placed on their use by an external party or constitutional provisions or enabling legislation (e.g., grants, contributions, specific fee mandates).

Committed – amounts that are committed for specific purposes by the Council, as the City's highest level of decision-making authority, pursuant to constraints imposed by formal actions taken, such as a majority vote or resolution. These committed amounts cannot be used for any other purpose unless the Council removes or changes the specific use through the same type of formal action taken to establish the commitment.

Assigned – amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned – amounts that are available for any purpose. The General Fund is the only fund that reports a positive unassigned fund balance amount. Unassigned balances also include negative balances in the governmental funds reporting resources restricted for specific programs.

Designations of fund balance represent tentative management plans that are subject to change. It is the City's policy to first use restricted resources when both restricted and unrestricted net assets or fund balances are available. For purposes of fund balance classification, expenditures are to be spent from Restricted Fund Balance first (when appropriate), followed in order by Committed Fund Balance, Assigned Fund Balance, and lastly, Unassigned Fund Balance.

Current Vulnerability due to Certain Concentrations

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or administrative changes mandated by HUD. Such changes may occur with little notice and inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

City of Manistee

Notes to the Financial Statements

Note 2 - Stewardship , Compliance and Accountability

Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

Not later than May 15th of each year, the Council shall by resolution adopt a budget for the next fiscal year, shall appropriate the money needed for municipal purposes during the next fiscal year of the City and shall provide for a levy of the amount necessary to be raised by taxes upon real and personal property for municipal purposes subject to limitations.

The budget document presents information by fund, department, and line items. The legal level of budgetary control adopted by the City Council is the department level, which is the level at which expenditures may not legally exceed appropriations. A City Council resolution may approve transfers of appropriations between departments.

Excess of Expenditures Over Appropriations

For the year ended June 30, 2012, the excess of expenditures over appropriations were as follows:

	Budgeted Amounts			Variance Favorable (Unfavorable) Final to Actual
	Original	Final	Actual	
General Government				
Assessor	\$ 108,512	\$ 113,512	\$ 114,613	\$ (1,101)
Attorney	80,000	92,000	104,077	(12,077)
Public Safety				
Fire	695,432	725,432	736,526	(11,094)
Public Works				
Streets & Highways	1,023,255	1,036,255	1,041,365	(5,110)
Recreation & Culture				
Parks & Recreation	357,276	372,276	387,230	(14,954)
Other				
Debt Service - Interest	147,047	325,827	344,842	(19,015)
Other Financing Uses				
Transfers to Other Funds	60,000	60,000	151,030	(91,030)

City of Manistee

Notes to the Financial Statements

Note 3 - Deposits and investments

Michigan Compiled Laws, Section 129.91 authorizes the local government unit to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations, which have an office in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase Agreements; bankers acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the state of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The City Council has designated six banks for the deposit of City funds. The investment policy adopted by the Council in accordance with Public Act 20 of 1943 has authorized all allowable investments except repurchase agreements.

The City's deposit and investment policy is in accordance with statutory authority.

Cash and cash equivalents, investments and restricted assets are reported in the financial statements as follows:

	Governmental Activities	Business-type Activities	Total Primary Government
Cash and Cash Equivalents	\$ 3,557,625	\$ 84,284	\$ 3,641,909
Restricted Cash and Cash Equivalents	-	487,802	487,802
Total	<u>\$ 3,557,625</u>	<u>\$ 572,086</u>	<u>\$ 4,129,711</u>

City of Manistee

Notes to the Financial Statements

As of year end, the City had the following investments:

<u>Investment</u>	<u>Fair Value</u>	<u>Rating</u>	<u>Rating Organization</u>
Fixed Income			
Certificate of Deposit	\$ 309,110		
Corporate Bonds	341,024	AA+	Standard & Poors
Corporate Bonds	386,968	A+	Standard & Poors
Corporate Bonds	565,459	A	Standard & Poors
Corporate Bonds	981,703	A-	Standard & Poors
Corporate Bonds	444,458	BBB+	Standard & Poors
Corporate Bonds	53,183	BBB	Standard & Poors
Equities	4,125,139		
Cash & Money Market	411,275		
Other Assets	377,410		
Total	<u>\$ 7,995,728</u>		

Investment and deposit risk

Interest Rate Risk - State law limits the allowable investments and the maturities of some of the allowable investments as identified above. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from decreasing interest rates.

Credit Risk - State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools. The City's investment policy does not have specific limits in excess of state law on investment credit risk.

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. The following schedule summarizes the bank balance and carrying amount at year end.

	<u>Bank Balance</u>	<u>Carrying Amount</u>
Amount Insured by the FDIC	\$ 1,476,756	\$ 1,476,756
Amount Uninsured and Uncollateralized	3,007,160	2,652,955
	<u>\$ 4,483,916</u>	<u>\$ 4,129,711</u>

City of Manistee

Notes to the Financial Statements

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified on the previous page. The City's investment policy also does not have specific limits in concentration of credit risk. Each of the investments held by the City exceeds five percent of the City's total investments.

Note 4 – Receivables

Receivables as of year end for the government's individual major funds and non-major in aggregate, including the applicable allowances for uncollectible accounts are as follows:

	General Fund	Oil & Gas	Major Street	Local Street	Non-major Funds	Water & Sewer	Other Enterprise Funds	Total
Receivables								
Trade	\$ 64,209	\$ -	\$ -	\$ -	\$ 43,524	\$ 300	\$ 23,874	\$ 131,907
Taxes	2,400	-	-	-	1,994	16,665	-	21,059
Accrued	84,087	-	-	-	-	218,915	-	303,002
Accrued Interest	-	39,726	-	-	-	-	-	39,726
Unbilled	-	-	-	-	-	292,834	-	292,834
Special Assessment	-	-	-	-	10,292	-	-	-
Due from State Government	96,157	-	96,529	21,550	-	-	-	214,236
Due from Federal Government	-	-	-	-	-	-	-	-
Total Receivables	<u>\$ 246,853</u>	<u>\$ 39,726</u>	<u>\$ 96,529</u>	<u>\$ 21,550</u>	<u>\$ 55,810</u>	<u>\$ 528,714</u>	<u>\$ 23,874</u>	<u>\$ 1,013,056</u>

City of Manistee

Notes to the Financial Statements

Note 5 - Capital assets

Primary Government

Capital assets recorded in the governmental activities of the primary government includes all sidewalk and streetscape improvements since the fiscal year ended June 30, 1997, streetlight improvements since the fiscal year ended June 30, 2003 and street improvements since the implementation of GASB 34.

Capital assets activity in the governmental and business-type activities was as follows:

Governmental Activities	<u>June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2012</u>
Capital assets not being depreciated				
Land	\$ 4,715,697	\$ -	\$ -	\$ 4,715,697
Construction in Process	1,039,293	109,783	1,039,293	109,783
Capital assets being depreciated				
Land Improvements	5,178,614	32,615	-	5,211,229
Infrastructure	6,822,503	3,359,234	-	10,181,737
Buildings & Structure	5,987,799	48,200	-	6,035,999
Vehicles	-	-	-	-
Furniture & Equipment	705,074	121,715	-	826,789
Total capital assets, being depreciated	<u>18,693,990</u>	<u>3,561,764</u>	<u>-</u>	<u>22,255,754</u>
Less accumulated depreciation				
Land Improvements	1,601,407	115,441	-	1,716,848
Infrastructure	1,350,985	329,729	-	1,680,714
Buildings & Structure	2,362,306	178,081	-	2,540,387
Furniture & Equipment	470,778	59,521	-	530,299
Total accumulated depreciation	<u>5,785,476</u>	<u>682,772</u>	<u>-</u>	<u>6,468,248</u>
Internal Service Assets, net	1,041,044	26,866	-	1,067,910
Total capital assets being depreciated - Net	<u>\$ 19,704,548</u>	<u>\$ 3,015,641</u>	<u>\$ 1,039,293</u>	<u>\$ 21,680,896</u>
Internal Service Fund	<u>June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2012</u>
Capital assets being depreciated				
Vehicles	\$ 2,456,640	\$ 143,351	\$ 138,840	\$ 2,461,151
Equipment	1,104,475	50,000	32,375	1,122,100
Total capital assets being depreciated	3,561,115	193,351	(171,215)	3,583,251
Total accumulated depreciation	2,520,071	166,485	171,215	2,515,341
Internal Service Activity - Net	<u>\$ 1,041,044</u>	<u>\$ 26,866</u>	<u>\$ -</u>	<u>\$ 1,067,910</u>

City of Manistee

Notes to the Financial Statements

Business-type Activities	<u>June 30, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2012</u>
Capital assets not being depreciated				
Land	\$ 60,207	\$ -	\$ -	\$ 60,207
Construction in Process	3,240,129	4,290	3,166,010	78,409
Capital assets being depreciated				
Land Improvements	417,502	-	-	417,502
Building & Structure	1,262,583	2,564,897	-	3,827,480
Infrastructure	31,361,738	3,645,941	-	35,007,679
Equipment	749,261	204,740	-	954,001
Total capital assets, being depreciated	<u>33,791,084</u>	<u>6,415,579</u>	<u>-</u>	<u>40,206,663</u>
Less accumulated depreciation				
Land Improvements	35,789	21,843	-	57,632
Building & Structure	383,728	68,707	-	452,435
Infrastructure	13,691,217	1,034,828	-	14,726,045
Equipment	402,806	50,783	-	453,589
Total accumulated depreciation	<u>14,513,540</u>	<u>1,176,160</u>	<u>-</u>	<u>15,689,700</u>
Business-type Activities Capital Assets - Net	<u>\$ 22,577,880</u>	<u>\$ 5,243,708</u>	<u>\$ 3,166,010</u>	<u>\$ 24,655,578</u>

Depreciation was charged as follows:

Governmental Activities:

General Government	\$ 158,628
Public Safety	82,533
Public Works	460,284
Recreation & Culture	147,812
Total Governmental Activities	<u>\$ 849,257</u>

Business-type Activities:

Water & Sewer	\$ 1,069,024
Boat Ramp	24,475
Marina	50,627
Ramsdell Theater	32,034
Total Business-type Activities	<u>\$ 1,176,160</u>

City of Manistee

Notes to the Financial Statements

Discretely Presented component units

Capital asset activity in the Housing Commission component unit was as follows:

Housing Commission	January 1, 2011	Additions	Reuctions	December 31, 2011
Capital assets not being depreciated				
Land	\$ 360,272	\$ -	\$ -	\$ 360,272
Construction in Progress	39,143	-	(39,143)	-
Capital assets being depreciated				
Leasehold Improvements	85,905	-	-	85,905
Buildings & Structure	9,687,803	51,072	-	9,738,875
Furniture & Equipment	693,143	12,552	-	705,695
Total capital assets, being depreciated	10,466,851	63,624	-	10,530,475
Total accumulated depreciation	6,335,164	395,901	-	6,731,065
Housing Commission Capital Assets - Net	\$ 4,531,102	\$ (332,277)	\$ (39,143)	\$ 4,159,682

Note 6 - Interfund receivables, payables and transfers

The composition of interfund balances is as follows as of June 30, 2012:

Due to Other Funds					
	General Fund	City Refuse	Water & Sewer	Ramsdell	Marina
General Fund	\$ 4,031	\$ 15,500	\$ 5,469	\$ 15,000	\$ -
Marina	2,000	-	-	-	-
Ramsdell	-	952	-	-	-
Capital Improvement	-	-	-	6,725	-
2010 Capital Improvement	-	-	67,346	-	-
Water & Sewer	55,955	-	-	-	274,482
	<u>\$ 61,986</u>	<u>\$ 16,452</u>	<u>\$ 72,815</u>	<u>\$ 21,725</u>	<u>\$ 274,482</u>
	Grant Management	Boat Ramp	Brownfield Redevelopment	Capital Improvement	Total
General Fund	\$ -	\$ -	\$ 60,000	\$ -	\$ 40,000
Marina	-	-	-	-	2,000
Ramsdell	-	-	-	52,410	952
Capital Improvement	25,533	-	-	-	6,725
2010 Capital Improvement	-	-	-	-	67,346
Water & Sewer	-	131,176	-	-	330,437
	<u>\$ 25,533</u>	<u>\$ 131,176</u>	<u>\$ 60,000</u>	<u>\$ 52,410</u>	<u>\$ 447,460</u>

City of Manistee

Notes to the Financial Statements

Interfund balances represent; 1) short-term borrowings between funds for cash flow purposes, 2) to act as an intermediate term loan to finance capital purchases, and 3) to transfer expenses to funds where they should have been recorded.

The composition of interfund transfers is as follows:

		Transfer Out to Other Funds			
		General Fund	Major Street	Local Street	Oil & Gas
Transfer in from Other Funds	General Fund	\$ -	\$ -	\$ 81,283	\$ -
	Ramsdell Theater	85,000	-	-	-
	Brownfield Redevelopment	10,075	-	-	-
	Major Street	-	-	29,779	-
	Capital Improvement	-	-	-	-
	Grant Management	-	-	-	-
	Water & Sewer Fund	55,955	-	-	342,782
	Local Street	-	70,000	-	-
	Marina	-	-	-	-
	2010 Capital Improvement	-	-	-	-
		<u>\$ 151,030</u>	<u>\$ 70,000</u>	<u>\$ 111,062</u>	<u>\$ 342,782</u>
		2010 Capital Improvement Bond	Capital Improvement	Water & Sewer	Total
	General Fund	\$ -	\$ 72,564	\$ 274,738	\$ 428,585
	Ramsdell Theater	-	236,878	-	321,878
	Brownfield Redevelopment	-	-	-	10,075
	Major Street	93,542	-	1,038,250	1,161,571
	Capital Improvement	-	-	342,782	342,782
	Grant Management	-	195,000	-	195,000
	Water & Sewer Fund	2,069,804	-	-	2,468,541
	Local Street	-	-	1,100,000	1,170,000
	Marina	-	40,000	-	40,000
	2010 Capital Improvement	-	-	1,041,456	1,041,456
		<u>\$ 2,163,346</u>	<u>\$ 544,442</u>	<u>\$ 3,797,226</u>	<u>\$ 7,179,888</u>

Transfers are used to; 1) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, 2) transfer amounts to debt service funds to make bond payments, and 3) to transfer interest revenue to the Water and Sewer Fund from the Oil & Gas Fund.

City of Manistee

Notes to the Financial Statements

Note 7 - Long-term debt

General obligation debt - The City issues general obligation bonds to provide funds for the acquisition and construction of major capital projects. These are direct obligations of the City and the City has pledged the full faith and credit. The City obtains notes payable to provide funds for the acquisition of other capital assets, mostly vehicles and other related equipment.

Included in the governmental activities general obligation debt is a Michigan Economic Development Corporation (MEDC) Loan which was granted by the MEDC to assist in the funding of the construction of the City of Manistee Renaissance Park.

During fiscal 2007, the MEDC adopted a new policy regarding industrial parks which indicated that no interest would be charged on the repayment of loans given to local municipalities to finance the construction of industrial parks. Thus, no accrued interest has been recorded for this loan in the accompanying statement of net assets at June 30, 2012.

The business-type activities have both revenue and general obligation bonds. The revenue bonds principal and interest are to be paid from the net revenues from the respective water supply system and sewer supply system. The general obligation bonds have the City's limited tax obligation.

During fiscal 2006, the City issued \$6,285,000 of Water and Sewer Revenue Refunding Bonds, Series 2005. The proceeds were used to refund and decrease portions of the 1997A revenue bond issue, the 1998A revenue bond issue and the 1999A revenue bond issue maturing at varying amounts through 2028 in the amount of \$5,920,000.

The DDA bond payable is also a general obligation of the City. The component unit's payable was issued by the component unit on behalf of the primary government. The DDA refinanced the outstanding bond payable during the current year retiring \$1,040,000 and reissuing \$1,075,000 in general obligation bonds.

During the year ended December 31, 2008, the Housing Commission obtained one note payable from MSHDA. The three mortgages are forgivable mortgages secured by property and buildings. If the properties mortgaged are continuously used in the Domestic Violence program, the mortgages are forgivable over the 40 year term; 25% for each 10 years that the houses stay in the program. The Commission is required by the loan agreement to deposit money each year into a reserve account to cover maintenance and repairs for the homes over the term of the loans. The amount deposited in the reserve account as of December 31, 2011 was \$53,593.

City of Manistee

Notes to the Financial Statements

Following is a summary of bonds and notes payable of the City for the year ending June 30, 2012:

Purpose	Maturity Date	Interest Rate	6/30/2012 Amount
Governmental Activities			
Government Funds			
2003 General Obligation Bond	2024	2.50-4.40%	\$ 2,315,000
2010 DDA Limited Tax General Obligation Bond	2020	2.00-4.00%	965,000
1999 Michigan Transportation Fund Limited Tax General Obligation Bond	2015	4.40-5.20%	395,000
2010 Tax General Obligation	2031	2.00-4.65%	5,590,000
Michigan Economic Development Corporation Loan	2022	0.00%	55,691
Note payable - Manager's office copier	2017	4.25%	8,314
Note payable - Clerk's copier	2017	4.25%	5,541
Internal Service Funds			
Note payable - Pierce pumper	2014	3.49%	47,214
Note payable - Beach cleaner	2012	4.71%	-
Note Payable - Bucket Truck	2014	3.50%	31,127
			<u>\$ 9,412,887</u>
Business-type Activities			
1997 General Obligation Rev Bonds	2017	2.25%	\$ 155,000
1998 General Obligation Bonds	2019	2.25%	1,065,000
1999 General Obligation Bonds	2021	2.50%	1,170,000
2005 Water & Sewer Refunding Bonds	2028	3.25-4.25%	5,020,000
2006 SRF Water & Sewer Bonds	2027	1.63%	2,142,270
2010 SRF Water & Sewer Bonds	2031	2.50%	631,075
2010 DWRF Water & Sewer	2031	2.50%	445,000
2011 DWRF Water & Sewer Bonds	2031	2.50%	431,241
2011 SRF Water & Sewer Bonds	2031	2.50%	1,275,774
Marina Debt - Installment Purchase	2026	3.24%	359,926
Ramsdell Theater Roof	2017	3.99%	287,063
Ramsdell Theater HVAC	2027	3.64%	1,218,339
			<u>\$ 14,200,688</u>

City of Manistee

Notes to the Financial Statements

Annual debt service requirements to maturity for governmental activities and business-type activities are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2012	\$ 602,036	\$ 354,740	\$ 956,776	\$ 1,124,952	\$ 417,432	\$ 1,542,384
2013	633,616	335,710	969,326	1,165,449	380,695	1,546,144
2014	623,979	314,689	938,669	1,216,156	341,794	1,557,950
2015	509,216	296,225	805,441	1,247,075	303,156	1,550,232
2016	526,429	279,340	805,769	1,254,283	264,042	1,518,325
2017-2021	2,787,611	1,090,575	3,878,186	5,009,353	761,704	5,771,057
2022-2026	2,165,000	558,418	2,723,418	2,450,350	276,754	2,727,104
2027-2031	1,565,000	147,626	1,712,626	733,069	38,614	771,683
Totals:	\$ 9,412,887	\$ 3,377,323	\$ 12,790,210	\$ 14,200,688	\$ 2,784,191	\$ 16,984,879

Changes in long-term liabilities were as follows:

Primary Government	June 30, 2011	Additions	Reductions	June 30, 2012	Due Within One Year
Governmental activities					
General Obligation Bonds	\$ 9,775,000	\$ 35,000	\$ (545,000)	\$ 9,265,000	\$ 555,000
Notes Payable	130,157	16,024	(53,985)	92,196	41,420
MEDC Loan	61,307	-	(5,616)	55,691	5,616
Compensated absences	257,691	322	-	258,013	-
	<u>\$ 10,224,155</u>	<u>\$ 51,346</u>	<u>\$ (604,601)</u>	<u>\$ 9,670,900</u>	<u>\$ 602,036</u>
Business-type activities					
General Obligation Bonds	\$ 2,675,000	\$ -	\$ (285,000)	\$ 2,390,000	\$ 285,000
Revenue Bonds	5,450,000	-	(430,000)	5,020,000	445,000
Notes Payable	343,873	1,250,000	(88,471)	1,505,402	124,227
Installment Purchase	380,000	-	(20,074)	359,926	20,725
DWRF & SRF Bonds	3,343,506	1,869,589	(287,735)	4,925,360	250,000
Compensated absences	47,867	11,056	-	58,923	-
	<u>\$ 12,240,246</u>	<u>\$ 3,130,645</u>	<u>\$ (1,111,280)</u>	<u>\$ 14,259,611</u>	<u>\$ 1,124,952</u>

For the governmental activities, compensated absences are generally liquidated by the General Fund.

Component Unit	January 1, 2011	Additions	Reductions	December 31, 2011	Due Within One Year
Housing Commission					
Notes Payable	\$ 1,722,059	\$ -	\$ (5,250)	\$ 1,716,809	\$ 8,657
Compensated absences	31,810	38,615	(38,413)	32,012	15,917
	<u>\$ 1,753,869</u>	<u>\$ 38,615</u>	<u>\$ (43,663)</u>	<u>\$ 1,748,821</u>	<u>\$ 24,574</u>

City of Manistee

Notes to the Financial Statements

Note 8 - Risk management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers compensation), as well as medical benefits provided to employees. During the year ended June 30, 2012, the City carried insurance through various commercial carriers, to cover all risks of loss. The City has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

Note 9 – Employee Retirement Systems

Defined Benefit Pension Plan

The City's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, MI 48917 or by calling (800) 767-6377.

Funding Policy

The City is required to contribute at actuarially determined rates; the current rates are as follows:

Division	Percentage of Payroll	
	2010	2009
	Valuation	Valuation
Non-Union	6.25%	5.58%
POAM	7.10%	5.30%
IAFF	13.84%	12.66%
USWA	0.00%	0.00%
COAM	0.20%	3.91%

General, Supervisory, USWA, POAM, IAFF and COAM employees are required to contribute 4%. The contribution requirements of the City are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and may be amended by the City depending on the MERS contribution program adopted by the City.

City of Manistee

Notes to the Financial Statements

Annual Pension Cost

For the year ended June 30, 2012, the City's annual pension cost of \$193,182 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the initial actuarial valuation using the entry age actuarial cost method. The actuarial assumption included; (a) a rate of return on the investment of present and future assets of 8.0%, (b) additional projected salary increases of 0.0% to 8.40% per year, depending on age, attributable to seniority/merit, and (c) projected salary increases of 4.5% per year, compounded annually, attributable to inflation. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The amortization period at initial valuation was 30 years.

Fiscal Year Ending	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
6/30/2007	\$ 22,350	100%	-
6/30/2008	77,319	100%	-
6/30/2009	89,201	100%	-
6/30/2010	108,357	100%	-
6/30/2011	193,182	100%	-

City of Manistee
Required Supplementary Information
MERS Agent Multiple-Employer Defined Benefit Pension Plan
Schedule of Funding Progress (Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	(Overfunded) Unfunded AAL (UAAL) (b-a)	Funded Ratio Total	Covered Payroll (c)	UAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2006	\$ 13,972,151	\$ 12,962,702	\$ (1,009,449)	108%	\$ 2,443,941	0%
12/31/2007	14,502,328	13,529,509	(972,819)	107%	2,574,152	0%
12/31/2008	14,550,907	14,248,609	(302,298)	102%	2,674,474	0%
12/31/2009	14,554,867	13,932,527	(622,640)	104%	2,659,384	0%
12/31/2010	14,693,334	14,152,755	(540,579)	104%	2,381,687	0%

City of Manistee

Notes to the Financial Statements

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the personnel policy currently in place. In the June 30, 2011, actuarial valuation, the alternative valuation method was used. The actuarial assumptions include: (a) a rate of return on investments of 4.50%; (b) projected healthcare benefit increases of 0.0%. The City's unfunded actuarial accrued liability will be amortized over 30 years in level dollar amounts. There are no assets as the City is funding OPEB on a "pay-as-you-go" basis.

Housing Commission

The Housing Commission participates in a defined benefit pension plan and provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. The Commission participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the MERS Retirement Board, Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. Statistical information concerning the plan can be obtained from MERS, which is contained in their annual actuarial valuation. The Commission is not required to contribute to the plan. The Commission's eligible employees are required to contribute 6% of annual covered payroll to participate in the plan. The contribution requirements of the Commission are established and may be amended by the MERS Retirement Board. The contribution requirements of plan members are established and amended by the Commission's Board depending on the MERS contribution program adopted by the Commission.

City of Manistee

Notes to the Financial Statements

Note 10 – Post-employment Health Care Benefits

Plan Description

In the fiscal year ending June 30, 2010, the City adopted the provision of Governmental Accounting Standards Board Statement No. 45, Accounting and Financial Reporting by Employers for Postretirement Benefits Other Than Pension Plans on a prospective basis. The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. In addition to the pension benefits described in Note 9, the City provides a post retirement health insurance premium contribution of up to 50% of the premium, or a maximum of \$250 per month, from normal retirement until age 65 or eligibility for Medicare.

Funding Policy

There are no required contributions by plan participants. The required contribution is based on pay-as-you-go financing requirements. The City paid \$16,000 in health insurance premiums for 8 participants for the year ended June 30, 2012. The benefit is funded by assets in the City's General Fund and Water and Sewer Fund depending on what department the employee was employed.

Annual OPEB Cost

The City's annual other post employment benefit (OPEB) cost (expense) is calculated based on the actual required contribution of the employer. The City is not pre-funding their obligation, choosing to meet the requirements on a pay-as-you-go basis.

Annual Required Contribution	\$ 36,106
Interest on Net OPEB Obligation	<u>2,205</u>
Annual OPE Cost (Expense)	38,311
Less: Contributions Made	<u>16,000</u>
Increase in OPEB Obligation	22,311
Net OPEB Obligation - Beginning	27,567
Net OPEB Obligation - Ending	<u>\$ 49,878</u>

City of Manistee

Notes to the Financial Statements

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 are as follows:

	Fiscal Year Ended June 30,	
	2012	2011
Annual OPEB Cost (Expense)	\$ 38,311	\$ 42,799
Percentatge of OPEB Cost Contributed	42%	45%
Net OPEB Obligation	\$ 49,878	\$ 27,567

Note 11 – Prior Period Adjustment

The Housing Commission's independent auditor made a prior period adjustment to correct net assets, which was understated as of December 31, 2011. The adjustment decreased the reported net assets amount by \$76,457 as of January 1, 2011.

REQUIRED SUPPLEMENTARY INFORMATION

City of Manistee
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended June 30, 2012

	Budgeted Amounts			Variance Favorable (Unfavorable) Final to Actual
	Original	Final	Actual	
Revenues				
Tax Revenues	\$ 3,365,949	\$ 3,365,949	\$ 3,399,257	\$ 33,308
Grants & Contributions	23,700	23,700	70,685	46,985
State Shared Revenues	516,648	516,648	588,250	71,602
Earned Interest	4,629	4,629	1,953	(2,676)
Rental/Lease	29,385	29,385	25,562	(3,823)
Fees, Fines & Forfeits	40,000	40,000	24,513	(15,487)
Refunds & Reimbursements	185,491	185,491	216,649	31,158
Charges For Services	742,000	742,000	850,107	108,107
Franchise Fees	86,000	86,000	91,301	5,301
Other Revenue	184,909	184,909	186,439	1,530
Interest on Investments	--	--	591	591
Total Revenues	5,178,711	5,178,711	5,455,307	276,596
Other Financing Sources				
Proceeds of Refunded Bonds	--	--	35,000	35,000
Proceeds from Debt Issuance	--	--	16,043	16,043
Transfers from Other Funds	--	--	428,585	428,585
Total Revenues and Other Financing Sources	5,178,711	5,178,711	5,934,935	756,224
Expenditures				
General Government				
Legislative	47,911	47,911	38,177	9,734
Manager	201,524	201,524	198,131	3,393
Clerk	181,741	181,741	168,844	12,897
Finance/Treasurer	199,635	199,635	191,704	7,931
Assessor	108,512	113,512	114,613	(1,101)
Municipal Buildings	133,650	133,650	118,765	14,885
Attorney	80,000	92,000	104,077	(12,077)
City Engineer	36,000	36,000	36,000	--
Boards & Comissions	11,425	11,425	6,876	4,549
Other Administrative Expenses	309,980	309,980	292,034	17,946
Public Safety				
Police	956,991	971,991	950,072	21,919
Fire	695,432	725,432	736,526	(11,094)
Public Works				
Highways & Streets	1,023,255	1,036,255	1,041,365	(5,110)
Community & Economic Development				
Community Development Office	277,925	277,925	272,484	5,441
Recreation & Culture				
Parks & Recreation	357,276	372,276	387,230	(14,954)

City of Manistee
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended June 30, 2012

	Budgeted Amounts			Variance Favorable (Unfavorable) Final to Actual
	Original	Final	Actual	
Appropriations				
Alternatives for Area Youth	13,000	13,000	13,000	--
211	2,500	2,500	2,500	--
Alliance for Economic Success	45,384	45,384	45,384	--
Junior Basketball	3,000	3,000	3,000	--
Manistee Recreation Association	28,500	28,500	28,500	--
Historical Museum	10,500	10,500	10,500	--
PEG Studio	24,000	24,000	24,000	--
Debt Service				
Debt Service - Principal	200,000	461,220	461,220	--
Debt Service - Interest	147,047	325,827	344,842	(19,015)
Total Expenditures	5,095,188	5,625,188	5,589,844	35,344
Other Financing Uses				
Transfers to Other Funds	60,000	60,000	151,030	(91,030)
Total Expenditures and Other Financing Uses	5,155,188	5,685,188	5,740,874	(55,686)
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	23,523	(506,477)	194,061	700,538
Net Change in Fund Balance	23,523	(506,477)	194,061	700,538
<i>Fund Balance at Beginning of Period</i>	<i>981,242</i>	<i>981,242</i>	<i>981,242</i>	<i>--</i>
Fund Balance at End of Period	\$ 1,004,765	\$ 474,765	\$ 1,175,303	\$ 700,538

City of Manistee
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Local Street
For the Year Ended June 30, 2012

	Budgeted Amounts			Variance Favorable (Unfavorable) Final to Actual
	Original	Final	Actual	
Revenues				
State Shared Revenues	\$ 121,278	\$ 121,278	\$ 130,854	\$ 9,576
Earned Interest	300	300	66	(234)
Total Revenues	121,578	121,578	130,920	9,342
Other Financing Sources				
Transfers from Other Funds	--	--	1,170,000	1,170,000
Total Revenues and Other Financing Sources	121,578	121,578	1,300,920	1,179,342
Expenditures				
Highways & Streets	142,000	224,000	130,766	93,234
Capital Outlay	1,100,000	1,100,000	1,100,000	--
Total Expenditures	1,242,000	1,324,000	1,230,766	93,234
Other Financing Uses				
Transfers to Other Funds	--	--	111,062	(111,062)
Total Expenditures and Other Financing Uses	1,242,000	1,324,000	1,341,828	(17,828)
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(1,120,422)	(1,202,422)	(40,908)	1,161,514
Net Change in Fund Balance	(1,120,422)	(1,202,422)	(40,908)	1,161,514
Fund Balance at Beginning of Period	81,017	81,017	81,017	--
Fund Balance at End of Period	\$ (1,039,405)	\$ (1,121,405)	\$ 40,109	\$ 1,161,514

City of Manistee
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Major Street
For the Year Ended June 30, 2012

	Budgeted Amounts			Variance Favorable (Unfavorable) Final to Actual
	Original	Final	Actual	
Revenues				
Grants & Contributions	\$ 1,182,000	\$ 1,182,000	\$ 45,113	\$ (1,136,887)
State Shared Revenues	345,000	345,000	364,303	19,303
Earned Interest	500	500	177	(323)
Charges For Services	170,000	170,000	190,335	20,335
Total Revenues	1,697,500	1,697,500	599,928	(1,097,572)
Other Financing Sources				
Transfers from Other Funds	1,412,911	1,412,911	1,161,571	(251,340)
Total Revenues and Other Financing Sources	3,110,411	3,110,411	1,761,499	(1,348,912)
Expenditures				
Highways & Streets	2,879,911	2,879,911	1,519,733	1,360,178
Debt Service - Principal	110,000	110,000	120,000	(10,000)
Debt Service - Interest	29,100	29,100	23,350	5,750
Total Expenditures	3,019,011	3,019,011	1,663,083	1,355,928
Other Financing Uses				
Transfers to Other Funds	81,283	81,283	70,000	11,283
Total Expenditures and Other Financing Uses	3,100,294	3,100,294	1,733,083	1,367,211
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	10,117	10,117	28,416	18,299
Net Change in Fund Balance	10,117	10,117	28,416	18,299
Fund Balance at Beginning of Period	73,860	73,860	73,860	--
Fund Balance at End of Period	\$ 83,977	\$ 83,977	\$ 102,276	\$ 18,299

City of Manistee
Required Supplementary Information
MERS Agent Multiple-Employer Defined Benefit Pension Plan
Schedule of Funding Progress (Unaudited)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	(Overfunded) Unfunded AAL (UAAL) (b-a)	Funded Ratio Total	Covered Payroll (c)	UAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2006	\$ 13,972,151	\$ 12,962,702	\$ (1,009,449)	108%	\$ 2,443,941	0%
12/31/2007	14,502,328	13,529,509	(972,819)	107%	2,574,152	0%
12/31/2008	14,550,907	14,248,609	(302,298)	102%	2,674,474	0%
12/31/2009	14,554,867	13,932,527	(622,640)	104%	2,659,384	0%
12/31/2010	14,693,334	14,152,755	(540,579)	104%	2,381,687	0%

OTHER SUPPLEMENTARY INFORMATION

**City of Manistee
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012**

	Special Revenue					
	<u>City Refuse</u>	<u>EPA Grant - Hazardous</u>	<u>EPA Grant - Petroleum</u>	<u>Peg Commission</u>	<u>Brownfield Redevelopment Authority</u>	<u>Building Inspector</u>
ASSETS						
Cash & Cash Equivalents	\$ 227,536	\$ 41,945	\$ 17,593	\$ 4,408	\$ 142,736	\$ 17,835
Receivables	23,848	--	--	--	--	--
Due from Agency Funds	11,167	--	--	--	--	--
Due from Other Funds	--	--	--	--	--	--
<i>Total Assets</i>	<u>\$ 262,551</u>	<u>\$ 41,945</u>	<u>\$ 17,593</u>	<u>\$ 4,408</u>	<u>\$ 142,736</u>	<u>\$ 17,835</u>
LIABILITIES						
Accounts Payable	\$ 38,178	\$ --	\$ 3,549	\$ --	\$ 2,000	\$ --
Accrued Liabilities	--	1,694	--	--	4,162	--
Deferred Revenue	--	40,251	14,044	--	--	--
Due to Other Funds	16,452	--	--	--	60,000	--
<i>Total Liabilities</i>	<u>54,630</u>	<u>41,945</u>	<u>17,593</u>	<u>--</u>	<u>66,162</u>	<u>--</u>
FUND BALANCE						
Restricted	207,921	--	--	--	76,574	--
Committed	--	--	--	--	--	--
Assigned	--	--	--	4,408	--	17,835
Unassigned	--	--	--	--	--	--
<i>Total Fund Balance</i>	<u>207,921</u>	<u>--</u>	<u>--</u>	<u>4,408</u>	<u>76,574</u>	<u>17,835</u>
<i>Total Liabilities and Fund Balance</i>	<u>\$ 262,551</u>	<u>\$ 41,945</u>	<u>\$ 17,593</u>	<u>\$ 4,408</u>	<u>\$ 142,736</u>	<u>\$ 17,835</u>

**City of Manistee
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2012**

	Special Revenue		Capital Projects			Total Nonmajor Governmental Funds
	Street Improvement	Grant Management Fund	Capital Improvement	Renaissance Park	2010 Capital Improvements	
ASSETS						
Cash & Cash Equivalents	\$ 89,757	\$ 358,288	\$ 179,844	\$ 12,319	\$ 11,830	\$ 1,104,091
Receivables	31,963	--	--	--	--	55,811
Due from Agency Funds	2,895	--	--	--	--	14,062
Due from Other Funds	--	--	32,258	--	67,346	99,604
Total Assets	\$ 124,615	\$ 358,288	\$ 212,102	\$ 12,319	\$ 79,176	\$ 1,273,568
LIABILITIES						
Accounts Payable	\$ --	\$ 749	\$ 2,000	\$ --	\$ --	\$ 46,476
Accrued Liabilities	--	--	--	--	--	5,856
Deferred Revenue	10,292	36,213	--	--	--	100,800
Due to Other Funds	--	25,533	52,410	--	--	154,395
Total Liabilities	10,292	62,495	54,410	--	--	307,527
FUND BALANCE						
Restricted	--	--	--	--	79,176	363,671
Committed	--	295,793	157,692	--	--	453,485
Assigned	114,323	--	--	12,319	--	148,885
Unassigned	--	--	--	--	--	--
Total Fund Balance	114,323	295,793	157,692	12,319	79,176	966,041
Total Liabilities and Fund Balance	\$ 124,615	\$ 358,288	\$ 212,102	\$ 12,319	\$ 79,176	\$ 1,273,568

City of Manistee
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2012

	Special Revenue					
	City Refuse	EPA Grant - Hazardous	EPA Grant - Petroleum	Peg Commission	Brownfield Redevelopment Authority	Building Inspector
Revenues						
Tax Revenues	\$ 217,251	\$ --	\$ --	\$ --	\$ --	\$ --
Grants & Contributions	--	11,382	12,974	38,247	--	--
Charges for Services	195,594	--	--	--	--	12,049
Refunds & Reimbursements	--	--	--	--	--	--
Interest on Investments	3,543	--	--	18	104	27
Total Revenues	416,388	11,382	12,974	38,265	104	12,076
Expenditures						
General Government	--	--	--	44,014	--	--
Public Safety	--	--	--	--	--	15,922
Public Works	460,202	11,382	13,745	--	33,093	--
Recreation & Culture	--	--	--	--	--	--
Capital Outlay	--	--	--	--	--	--
Debt Service - Principal	--	--	--	--	--	--
Total Expenditures	460,202	11,382	13,745	44,014	33,093	15,922
Excess of Revenues Over (Under) Expenditures	(43,814)	--	(771)	(5,749)	(32,989)	(3,846)
Other Financing Sources (Uses)						
Transfers from Other Funds	--	--	--	--	10,075	--
Transfers to Other Funds	--	--	--	--	--	--
Net Other Financing Sources (Uses)	--	--	--	--	10,075	--
Net Change in Fund Balance	(43,814)	--	(771)	(5,749)	(22,914)	(3,846)
Fund Balance at Beginning of Period	251,735	--	771	10,157	99,488	21,681
Fund Balance at End of Period	\$ 207,921	\$ --	\$ --	\$ 4,408	\$ 76,574	\$ 17,835

City of Manistee
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
For the Year Ended June 30, 2012

	<u>Special Revenue</u>		<u>Capital Projects</u>			<u>Total Nonmajor Governmental Funds</u>
	<u>Street Improvement</u>	<u>Grant Management Fund</u>	<u>Capital Improvement</u>	<u>Renaissance Park</u>	<u>2010 Capital Improvements</u>	
Revenues						
Tax Revenues	\$ --	\$ --	\$ --	\$ --	\$ --	\$ 217,251
Grants & Contributions	--	266,638	--	--	--	329,241
Charges for Services	28,575	--	--	--	--	236,218
Refunds & Reimbursements	21,429	--	--	--	--	21,429
Interest on Investments	893	--	580	26	542	5,733
Total Revenues	50,897	266,638	580	26	542	809,872
Expenditures						
General Government	--	10,000	13,271	--	--	67,285
Public Safety	--	22,089	2,795	--	--	40,806
Public Works	15,467	--	--	--	--	533,889
Recreation & Culture	--	--	183	--	--	183
Capital Outlay	--	134,911	75,488	--	--	210,399
Debt Service - Principal	--	--	--	5,616	--	5,616
Total Expenditures	15,467	167,000	91,737	5,616	--	858,178
Excess of Revenues Over (Under) Expenditures	35,430	99,638	(91,157)	(5,590)	542	(48,306)
Other Financing Sources (Uses)						
Transfers from Other Funds	--	195,000	342,782	--	1,041,456	1,589,313
Transfers to Other Funds	--	--	(544,442)	--	(2,163,346)	(2,707,788)
Net Other Financing Sources (Uses)	--	195,000	(201,660)	--	(1,121,890)	(1,118,475)
Net Change in Fund Balance	35,430	294,638	(292,817)	(5,590)	(1,121,348)	(1,166,781)
Fund Balance at Beginning of Period	78,893	1,155	450,509	17,909	1,200,524	2,132,822
Fund Balance at End of Period	\$ 114,323	\$ 295,793	\$ 157,692	\$ 12,319	\$ 79,176	\$ 966,041

City of Manistee
Combining Statement of Net Assets
Nonmajor Enterprise Funds
June 30, 2012

	Enterprise			Total Enterprise Funds
	Boat Ramp	Marina	Ramsdell Theatre	
ASSETS				
<i>Current Assets</i>				
Cash & Cash Equivalents	\$ 8,992	\$ 28,249	\$ 32,464	\$ 69,705
Receivables	15	21,874	1,985	23,874
Prepaid Expenditures	--	359	171	530
Inventory	--	16,324	--	16,324
Due from Other Funds	--	2,000	53,362	55,362
Total Current Assets	9,007	68,806	87,982	165,795
<i>Noncurrent Assets</i>				
Capital Assets, net	383,334	1,333,359	2,073,221	3,789,914
Total Assets	392,341	1,402,165	2,161,203	3,955,709
LIABILITIES				
<i>Current Liabilities</i>				
Accounts Payable	209	29,431	2,497	32,137
Accrued Liabilities	--	3,488	--	3,488
Due to Other Governments	--	98	--	98
Security Deposits	--	--	2,980	2,980
Accrued Payroll & Related Liabilities	--	1,232	541	1,773
Accrued Interest Payable	--	3,887	21,857	25,744
Current Portion of Long-term Debt	--	20,725	124,227	144,952
Due to Other Funds	131,176	274,482	21,725	427,383
Total Current Liabilities	131,385	333,343	173,827	638,555
<i>Noncurrent Liabilities</i>				
Accrued Absences	--	--	1,120	1,120
Long-term Debt less Current Portion	--	339,201	1,381,175	1,720,376
Total Liabilities	131,385	672,544	1,556,122	2,360,051
NET ASSETS				
Invested in Fixed Assets Net of Related Debt	383,334	973,433	567,819	1,924,586
<i>Restricted for:</i>				
Restricted	--	16,683	171	16,854
<i>Unrestricted</i>	(122,378)	(260,495)	37,091	(345,782)
Total Net Assets	\$ 260,956	\$ 729,621	\$ 605,081	\$ 1,595,658

City of Manistee
Combining Statement of Revenues, Expenses, and Changes in Net Assets
Nonmajor Enterprise Funds
For the Year Ended June 30, 2012

	Enterprise			Total Enterprise Funds
	Boat Ramp	Marina	Ramsdell Theatre	
Operating Revenues				
Charges for Services	\$ 24,235	\$ 201,750	\$ 57,294	\$ 283,279
Other Revenue	--	27,684	668	28,352
Total Operating Revenues	24,235	229,434	57,962	311,631
Operating Expenses				
Recreation & Culture	--	--	133,411	133,411
Boat Ramp	13,134	--	--	13,134
Marina	--	220,339	--	220,339
Depreciation & Amortization	24,475	50,627	32,034	107,136
Total Operating Expenses	37,609	270,966	165,445	474,020
Operating Income (Loss)	(13,374)	(41,532)	(107,483)	(162,389)
Non-Operating Revenues (Expenses)				
Grants & Contributions	--	18,841	5,917	24,758
Interest on Investments	13	188	1,585	1,786
Interest Expense	(4,176)	(12,095)	(53,376)	(69,647)
Net Non-Operating Revenues (Expenses)	(4,163)	6,934	(45,874)	(43,103)
Transfers	(17,537)	(34,598)	(153,357)	(205,492)
Transfers from Other Funds	--	40,000	321,878	361,878
Transfers to Other Funds	--	--	--	--
Change In Net Assets	(17,537)	5,402	168,521	156,386
<i>Net Assets at Beginning of Period</i>	<i>278,493</i>	<i>724,219</i>	<i>436,560</i>	<i>1,439,272</i>
Net Assets at End of Period	\$ 260,956	\$ 729,621	\$ 605,081	\$ 1,595,658

City of Manistee
Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2012

	Business-type Activities Enterprise Funds			Total Nonmajor Enterprise Funds
	Boat Ramp	Marina	Ramsdell Theatre	
Cash Flows from Operating Activities				
Receipts from Customers	\$ 24,220	\$ 221,721	\$ 56,227	\$ 302,168
Payments to Suppliers	(13,147)	(282,565)	(113,291)	(409,003)
Payments to Employees	-	(38,768)	(27,271)	(66,039)
Total Cash Flows from Operating Activities	11,073	(99,612)	(84,335)	(172,874)
Cash Flows from Non-capital Financing Activities				
Transfers from (to) Other Funds	-	40,000	321,878	361,878
(Increase) Decrease in Due from Other Funds	-	(2,000)	(53,362)	(55,362)
(Decrease) Increase in Due to Other Funds	(3,824)	(43,770)	21,725	(25,869)
Total Cash Flows from Non-capital Financing Activities	(3,824)	(5,770)	290,241	280,647
Cash Flows from Capital and Related Financing Activities				
Proceeds from Debt Issuance	-	-	1,250,000	1,250,000
Receipts From Other Agencies	-	18,841	5,917	24,758
Purchase of Capital Assets	-	(138,189)	(1,314,238)	(1,452,427)
Principal Paid on Capital Debt	-	(20,074)	(88,470)	(108,544)
Interest Paid on Capital Debt	(4,176)	(12,312)	(35,885)	(52,373)
Total Cash Flows from Capital and Related Financing Activities	(4,176)	(151,734)	(182,676)	(338,586)
Cash Flows from Investing Activities				
Interest on Investments	13	188	1,585	1,786
Total Cash Flows from Investing Activities	13	188	1,585	1,786
Net Increase (Decrease) in Cash & Cash Equivalents	3,086	(256,928)	24,815	(229,027)
Cash & Cash Equivalents - Beginning of Year	5,906	285,177	7,649	298,732
Cash & Cash Equivalents - End of Year	\$ 8,992	\$ 28,249	\$ 32,464	\$ 69,705

City of Manistee
Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2012

	Business-type Activities Enterprise Funds			Total Nonmajor Enterprise Funds
	Boat Ramp	Marina	Ramsdell Theatre	
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Operating Income (Loss)	\$ (13,374)	\$ (41,532)	\$ (107,483)	\$ (162,389)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities				
Depreciation and Amortization Expense	24,475	50,627	32,034	107,136
Changes in Assets & Liabilities				
Receivables	(15)	(7,713)	(1,735)	(9,463)
Inventory	-	(4,363)	-	(4,363)
Prepaid Expenses	-	(252)	(150)	(402)
Accounts Payable	(13)	(97,611)	(6,730)	(104,354)
Compensated Absences	-	-	(812)	(812)
Accrued Payroll	-	1,232	541	1,773
				-
Net Cash Provided by Operating Activities	\$ 11,073	\$ (99,612)	\$ (84,335)	\$ (172,874)

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October 5, 2012

To the City Council
City of Manistee, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Manistee for the year ended June 30, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 24, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter dated August 24, 2012, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, for which noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the

purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination of the City's compliance with those requirements.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Manistee are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year ended June 30, 2012. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the City of Manistee's financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future.
- Management's estimate of the accrued compensated absences and the related pay rates as of June 30, 2012.
- Management's estimate of the net present value of post employment benefits, other than pension.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 5, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of management, the City Council, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

October 5, 2012

To the City Council
City of Manistee, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Manistee, Michigan as of and for the year ended June 30, 2012, which collectively comprise the City of Manistee, Michigan's basic financial statements and have issued our report thereon dated October 5, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Manistee's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion of the effectiveness of the City of Manistee's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Manistee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the City Council, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

Best regards,

Gabridge Wilson, CPA

Gabridge Wilson, CPA
Interlochen, MI